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SUBJECT: Rep. Larsen Meeting with Guangzhou Mayor: Ten Percent GDP Growth the Target, but Hard to Hit

11. SUMMARY: The global economic crisis will make it difficult for Guangzhou to achieve its goal of 10 percent GDP growth this year, according to Mayor Zhang Guangming in a May 26 meeting with Congressman Larsen. The municipal government hopes that growth in the services sector will offset slowed growth in manufacturing. The Guangzhou Government officially boasts of low unemployment rates, but the statistics likely do not account for significant job losses among migrant workers. END SUMMARY.

Front Row and Front Lines

12. Guangzhou Mayor Zhang Guangming told Congressman Larsen that he had had a front row view of the spreading subprime crisis in September 2008 while attending training at Stanford University. Zhang claimed to have predicted the negative impact of the subprime crisis on Guangzhou's economy, saying that he subsequently called for local government agencies to take measures to prepare for the economic recession as soon as he returned to Guangzhou. He proudly stated that Guangzhou had taken action earlier than both the Central Government and the Guangdong Provincial Government.

13. Guangzhou adopted measures to deal with the recession in November 2008, Zhang told Larsen. This included an economic stimulus package focusing on infrastructure development investment such as the construction of highways, harbors, airports, and subway lines. Local government also took the initiative to provide small grants to small and medium-sized enterprises (SMEs) and to reduce local taxes and fees to ease the financial burden for enterprises. Mayor Zhang claimed that these measures had significantly helped enterprises continue operation without large-scale layoffs. In addition, the Guangzhou Government streamlined administrative procedures to improve essential services to enterprises. Zhang also said he viewed the 2010 Asian Games, to be hosted in Guangzhou, as an opportunity to further develop the economy and expand Guangzhou's influence in Asia.

Services Key to Hitting Short-term Targets

14. Although many cities would be delighted with Guangzhou's 8.1 percent GDP growth in the first four months of 2009, it was nonetheless the city's lowest in 30 years. The municipal government is now gambling that service industry development can mitigate the losses in manufacturing (which Zhang referred to as "secondary industries"). Mayor Zhang said the service industry normally contributes 60 percent of GDP, and from January through April 2009,

Guangzhou's service industry realized 11.7 percent growth in output. If that continues and the output of manufacturing achieves 6 percent growth, Guangzhou should be able to top 10 percent GDP growth this year, said Zhang.

15. To ensure 6 percent growth in manufacturing, the Guangzhou Government will focus on the automobile, information technology and petrochemical industries. According to Zhang, these three industries contribute approximately 39 percent of the city's GDP. Zhang said that Guangzhou's automobile manufacturing industry showed positive signs with 9.4 percent growth during the first four months of 2009. Meanwhile, the government will also encourage local export-oriented enterprises to explore new markets, such as Southeast Asia and Africa as well as the Chinese domestic market (this sounds very much like Party Secretary Wang Yang's vision for Guangdong's growth reported septel). Zhang said that Guangzhou's Bureau of Foreign Trade and Economic Cooperation had recently organized several seminars to assist local enterprises in this regard.

Unemployment not a Problem (Officially)

16. Mayor Zhang said the unemployment problem was under control, claiming that municipal government policies had reduced the April 2009 unemployment rate to only 2.28 percent -- down from the previous month. (Comment: Zhang's unemployment numbers almost certainly include only Guangzhou's officially registered population, and do not account for the millions of migrant workers -- a considerable number still searching for jobs -- within Guangzhou's city boundaries. End comment.) Using his methodology, Zhang said

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the Guangzhou Municipal Government was confident that it could limit Guangzhou's 2009 unemployment rate to 3.6 percent.

17. In his extensive briefing on the city and its economy, Zhang pointed out that its GDP of RMB 821 billion (approximately USD 12 billion) accounted for 23 percent of the province's GDP in 2008. With a population of 11.2 million as well, Guangzhou bills itself as the core city in the Pearl River Delta.

18. The delegation did not have an opportunity to review this cable before transmission.

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